



EFT Implementation Guide

Industry

OPTins
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NAIC

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Introduction

Insurance regulatory data has been transferred electronically for years. However, the transfer of money that must accompany much of this data has had to move along in a manual manner. Many of the benefits associated with the transmittal of electronic data (accuracy, timeliness, efficiency and cost reduction) have not been leveraged with the transfer of funds. Electronic Funds Transfer (EFT) changes that.

Although the term “electronic funds transfer” encompasses a variety of technologies, the NAIC has limited the scope to ACH for OPTins - Online Premium Tax for Insurance - transactions. This technology is widely available, standard, secure and inexpensive.

This guide is designed to provide an overview to the insurance industry of the steps required to implement electronic funds transfer technology with the NAIC and the State Insurance Departments.

How EFT Works

Insurance companies and participating states enroll in the ACH program with the NAIC. Setup includes identifying the correct bank accounts and authorization to withdraw funds.

No technology changes are required. The OPTins application interfaces with an NAIC system called CECI (Common Electronic Commerce Initiative). This system provides a tracking number to OPTins that allows for detailed transaction tracing capabilities.

Each business day (with the exception of holidays), the CECI system summarizes all of a company’s transactions and produces a *single* ACH transaction per account; depending on how the company’s accounts are configured.

CECI uses two of the many available ACH transactions: CTX (Corporate Trade Exchange) and CTX Addenda transactions. One CTX transaction is the equivalent of a “check.” The CTX Addenda transactions (1 to 9,999 per CTX transaction) serve as an “envelope” that contains ANSI x.12 EDI 820 transactions. These transactions provide detailed filing information and travel through the banking system along with the CTX transactions.

The CTX transactions “pull” money from the bank account of the company and “push” money to the state bank accounts. For payment of state premium taxes, the pull/push process occurs during the same night’s processing. The NAIC uses national banking and EDI standards to provide the widest possible interoperability among its trading partners.

OPTins provides a reporting feature that allows companies to obtain information on all of their e-commerce transactions. Users with the EFT Report role have the option of viewing EFT Reports in Web page or comma-delimited (CSV) formats.

Implementing EFT

Although there are only eight steps to implement EFT, it generally takes three or four functional areas within a company's organization to complete the process. Those responsible for administering the firm's bank accounts, generally the Treasury department, must be able to account for cash flows. The Accounts Payable area must be able to account for the detailed charges. The premium tax area must be able to confirm information about the filing and that the proper fees were paid. The technical area must make whatever changes, if any, necessary to implement the re-designed business functions and take advantage of the new technology. Finally, the entire set up must be tested to ensure that it meets business needs. The following steps are examined in further detail below:

- Step 1: Request information on implementing EFT in *OPTins* and review entire implementation guide and all documents and tutorials.
- Step 2: Determine and implement accounting procedures to account for banking transactions.
- Step 3: Determine and implement accounting procedures to account for detailed charges.
- Step 4: Determine and implement filing procedures to relate financial changes to filings.
- Step 5: Communicate company setup configuration to the NAIC staff.
- Step 6: Execute Exhibits A & B and the Company Contact Form and submit to the NAIC via e-mail or fax (816.460.0191).
- Step 7: Complete testing and certification.
- Step 8: Implement.

Step 1: Request Information

Objective:

The NAIC will provide all documents and any additional information as needed in order for the company to make their decisions.

Process:

For additional questions, please contact:

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Step 2: Determine Cash Accounting Procedures

Objective:

Correctly account for cash flows from company bank accounts and develop the journal entries to company-specific general ledger accounts. Ensure that the process meets security, authority and auditing standards.

Techniques:

Generally this step is performed by the firm's Treasury Department. Sometimes this step is combined with Step 3. There are several techniques available. Although not complete, this list could provide the starting point for how your company will implement EFT.

1. Read ACH transmission from the bank.

Since the NAIC uses standard banking transactions, companies may be able to leverage banking processes already in place. Most banks can provide a copy of ACH transactions affecting the company's account. Many standard accounting packages are able to read ACH format files. The CTX transaction contains the amount of the withdrawal and descriptive information. Included in the descriptive information is a 15-character identifier. The NAIC uses the first two characters, leaving 13 characters for a company-specific number that could map to a general ledger account.

If your firm does not currently have the ability to decode ACH transactions, a technical change to your systems will be required. If you are already receiving some ACH formats, adding the CTX format will be a relatively minor change.

2. Use current banking documents to record transactions manually.

ACH deposits, as do all deposits, appear on your monthly bank statement. The date and descriptive information should make it possible for the company to create manual journal entries for each day, or on a summary basis. Amounts could be verified by using the OPTins EFT Report. See Appendix 2 for an example of an EFT Report.

3. Use OPTins EFT Report to make manual entries.

This technique reverses option 2. In this case, entries are made on a daily or summary basis based on the OPTins EFT Report. Amounts are verified against the bank statement on a monthly basis. See Appendix 2 for an example of an EFT Report.

Step 3: Determine Detailed Accounting Procedures

Objective:

Correctly account for the premium taxes paid. Ensure that the process meets security, authority and auditing standards.

Techniques:

This step may be combined with either step 2 or 4 or may stand on its own. The technique used will depend on how the other steps are implemented.

1. Read CTX Addenda records and 820 details.

The transmission will include the CTX records and, if your bank provides detailed ACH transactions, the company can request the CTX addenda records to be included as well. The CTX addenda records act as an “envelope” to ANSI x.12 EDI 820 records affecting the company’s account.

Some standard accounting packages are able to read CTX Addenda records, including the EDI 820 records. The 820 records provide detailed information about individual transactions – who, why and how much. Included in the data are transaction identifiers that allow you to tie the information back to the OPTins application.

If your firm does not currently have the ability to decode EDI 820 transactions, your system will require a technical change or you will need a new system. This may be a moderately difficult task, since there are several records within the 820 record set and they are compressed within the CTX addenda record.

2. Obtain 820 data or report from your bank.

Although 820 translation is not necessarily widespread within the industry, most banks have this capability. Your bank may be able to provide either 820 reports or data. If this information is used primarily for auditing purposes, this may suffice.

3. Use OPTins EFT Report.

The OPTins EFT Report contains detailed information about premium tax filings. The user can generate the report by choosing the time frame and format (web page or comma-delimited). See Appendix 2 for an example of an EFT Report.

Step 4: Determine Filing Procedures

Objective:

The premium tax department must be able to identify the detailed transactions and connect them to a filing.

Techniques:

In many cases, the detailed OPTins filing information must be recorded in a company system. Such an instance would indicate that a technique which included data transfer would be most appropriate. The techniques for this step are very similar to those in the previous step.

1. Read CTX Addenda records and 820 details.

The OPTins tracking number, individual company name, NAIC group code and company code, FEIN, Filing Period and state are included on 820 transactions. If your firm has the ability to read 820 data, this would be the easiest way to interface your company’s filing system. Any automated interface with your filing system would require a technical change.

2. Obtain 820 data/report from your bank.

This option is identical to Option 2 Step 3. If you do not require an automated interface, this may be a viable option. Although 820 translation is not necessarily widespread within the industry, most banks have this capability. Your bank may be able to provide either 820 reports or data. If this information is used primarily for auditing purposes, this may suffice.

3. Use OPTins EFT Report.

The OPTins EFT Report contains detailed information about filings. Since it is available in web page or comma-delimited (CSV), it may be possible to integrate with a company system. See Appendix 2 for an example of an EFT Report.

Step 5: Communicate setup configuration

There are many ways to set up the CECI system. Once you have made the decisions about how you will implement e-commerce at your company, you must communicate your decision to the NAIC staff along with the Exhibits.

Step 6: Execute E-Commerce Agreement

Objective:

By definition, e-commerce is the movement of money in electronic format rather than by paper. For standard OPTins Licensees, the NAIC is automatically granted authority to access company accounts when the terms of the OPTins Use Agreement is accepted. The only additional paperwork required are Exhibits A and B and the Company Contact Form. Once these documents are submitted, testing can begin.

For questions about the contents of the Use Agreement, please contact:

Thea Cook
Product Implementation Manager
816-783-8747
tcook@naic.org

Process:

Complete the Exhibits and the Company Contact Form only and email, fax or mail it to the following address and to the attention of any of the four contacts in this agreement:

NAIC
2301 McGee, Suite 800
Kansas City, MO 64108
816-460-0191 fax
optinsmktg@naic.org

Your company will be contacted, confirming receipt of your documentation and will be provided with further information about EFT testing.

Step 7: Complete Testing and Certification

There is no “test” banking system, so thorough component testing is very important. It must be carefully coordinated between the company and the NAIC. The e-commerce process is a closed-loop system. Data originates and terminates at the company. The NAIC will help coordinate the following testing processes:

System Test – The purpose of the system test (or ‘Penny Test’) is to ensure that communication works among the parts of the system. The NAIC will originate the

transmission of “test” transactions, for a specified amount. Because there is no test banking system, these transactions will occur through the normal banking system and your account will be charged the specified amount plus any processing fees your bank may charge. However, all reports and transaction files will be processed using the same process as production. Once the debit appears on the company’s bank statement, the company should notify the NAIC that the test was successful. If requested, this step may be repeated. The test is considered a failure if the company does not see a debit on their account or if the NAIC receives an ACH return. This will require subsequent testing until a successful test is completed.

Step 8: Implementation

Once the company has successfully tested the system, they will notify the NAIC of the date they would like to move into production with EFT. NAIC staff and company staff should monitor the system for the succeeding week to ensure that things are processing appropriately. Any questions should be directed to the person handling your implementation or any one of the following:

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Rachel Asbury
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rasbury@naic.org
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Kelly McCumber
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816.783.8470

Teresa Koerkenmeier
Implementation Specialist II
tkoerken@naic.org
816-783-8698

Complete the Exhibits and the Company Contact Form only and e-mail to any of the four contacts listed above.

Following pages include:

Appendix 1: Forms to be completed and returned to NAIC

- ◆ Exhibit A: Authorization For Electronic Debit and Credit Entries
- ◆ Exhibit B: EFT Enrollment Form
- ◆ OPTins Company & Contact Form

Appendix 2: OPTins Report Examples

Appendix 1

INDUSTRY EXHIBIT A

AUTHORIZATION FOR ELECTRONIC DEBIT AND CREDIT ENTRIES

The National Association of Insurance Commissioners (“NAIC”) is authorized to initiate debit entries and to initiate, if necessary, credit entries and adjustments for the correction of any debit entries in error from or to the account indicated below of _____ (COMPANY) at the financial institution indicated below:

Name of Financial Institution: _____

Address of Financial Institution: _____

Routing & Transit No.: _____

Account No.: _____

Account Name (if applicable): _____

****NOTE** Attach a voided check which shows the Routing and Transit Number & Account Number.**

The Company authorizes the above-named Financial Institution to honor such requests from the NAIC and to debit or if applicable, to credit, the same to the account indicated above. The debit entries initiated by the NAIC are for the payments due under OPTins Use Agreement.

This authorization shall remain in full force and effect until the above-named Financial Institution as well as the NAIC have received written notice from the Company of termination of authority in such time and manner as to afford the Financial Institution as well as the NAIC a reasonable time to act on said termination. Notwithstanding the foregoing, this authorization shall terminate no later than thirty (30) days after written notice of termination is received by the NAIC.

Signature of Authorizing Party: _____

Name & Title of Authorized Party: _____

Name of Company: _____

Address: _____

Telephone Number: _____

Date: _____

EFT ENROLLMENT FORM

Company Name

Treasury/Cash Management/Bank Account Manager Contact

Name

Phone

Fax

Email

Premium Tax Department Accounting/Accounts Payable Contact

Name

Phone

Fax

Email

Premium Tax Department Contact

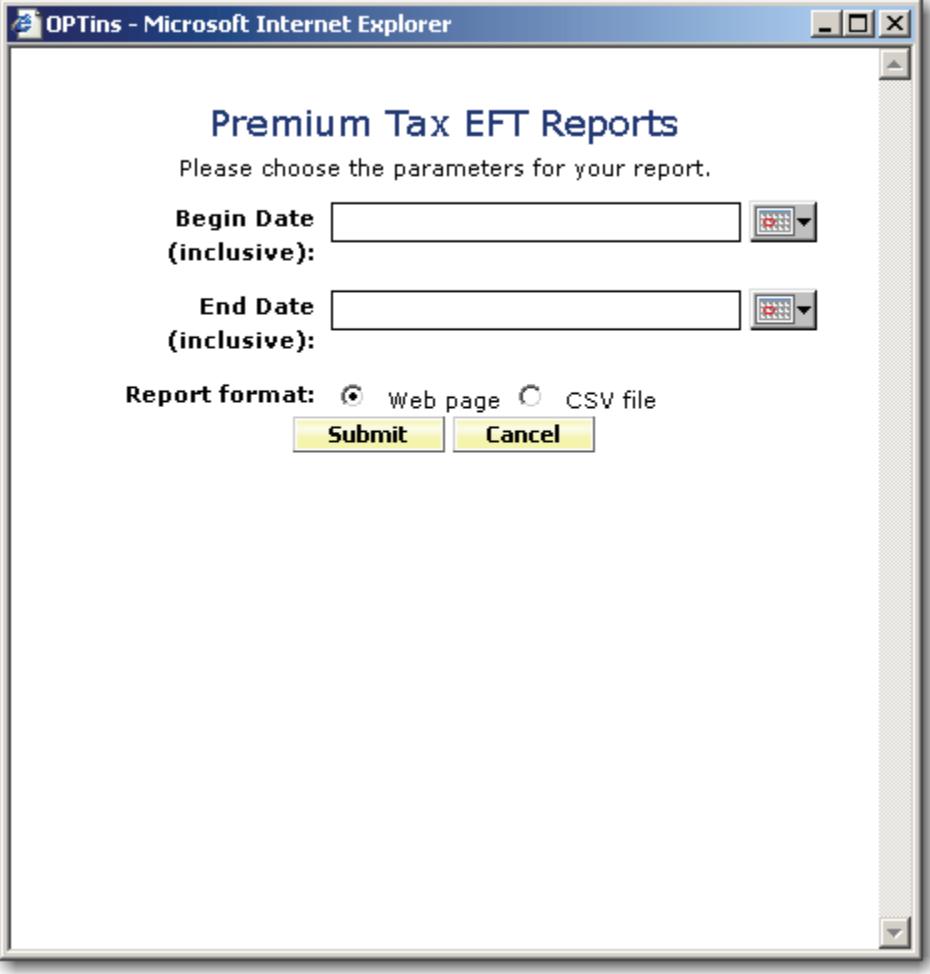
Name

Phone

Fax

Email

Report Menu

OPTins - Microsoft Internet Explorer

Premium Tax EFT Reports

Please choose the parameters for your report.

Begin Date 
(inclusive):

End Date 
(inclusive):

Report format: Web page CSV file

Submit **Cancel**

EFT Report

OPTins - Microsoft Internet Explorer

Premium Tax EFT Reports

EFT Report for dates 06/03/2008 to 06/03/2008

Transaction Date	Company Name	Company Code	FEIN	Submitter Name	State	Filing Number	Tracking Number	Filing Period	Filing Year	Amount	Transaction Number
06-03-2008	Atkin Ins Co		55-2154112	T M Kroll	NC	NC2008Q1null		Quarter 1	2008	\$114,213.01	1707814
06-03-2008	Atkin Ins Co		55-2154112	T M Kroll	--	NC2008Q1null		Quarter 1	2008	\$10.00	1707815
06-03-2008	Baldwin Ins Co	54655	55-5455445	T M Kroll	--	NC2008Q454655		Quarter 4	2008	\$10.00	1707813
06-03-2008	Baldwin Ins Co	54655	55-5455445	T M Kroll	NC	NC2008Q454655		Quarter 4	2008	\$45,512.21	1707812
06-03-2008	Griep P&C Ins Co	88457	66-5124875	T M Kroll	--	NC2008Q188457		Quarter 1	2008	\$10.00	1707817
06-03-2008	Griep P&C Ins Co	88457	66-5124875	T M Kroll	NC	NC2008Q188457		Quarter 1	2008	\$35,461.84	1707816

totals for 06-03-2008, 6 transaction(s), total amount \$195,217.06